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A Look at the Proposed 2015 Pittsburgh Budget

The City's 2015 operating budget and five year financial forecast were submitted to the oversight board on September 22nd. The 2015 budget shows $512.6 million in revenue, $505.9 million in expenditures and an operating result (surplus) of $6.7 million. This *Policy Brief* examines and discusses some of the main items in the budget document.

Compared to City estimates of 2014 collections, the City's revenues (taxes and other sources) will be $26.5 million higher in 2015 ($486.1 million to $512.6 million). Note that the 2014 estimate is about $7 million higher than the budget amount originally proposed in September 2013 by the former Mayor. This is mostly due to the approval in February to move $7.1 million out of the reserve fund to operating funds to cover expected expenses associated with the new Mayor's early retirement incentives.

Meanwhile, estimated revenues from two sources are well below budgeted numbers. Real estate collections are now forecast to fall $4 million short of budget and intergovernmental transfers are estimated to be $3 million shy of budget. On the other hand, several revenue sources are estimated to have shown significantly stronger than expected collections; amusement taxes ahead of budget by $1.6 million, earned income taxes by $2.0 million, deed transfer by $2.1 million and payroll preparation tax higher by $0.7 million. In total, the higher than budgeted amounts are almost a complete offset for the $7 million combined shortfall in transfers and real estate taxes.

At the same time, February's revised budget expenditures were also raised to cover the early retirement incentives. But as it turns out, the budget minders are now estimating only $1.5 million of the $7.1 million of transferred reserve funds will be spent, lowering the estimated expenditures for 2014 to $480.2 million from the $486.7 million in the revised February budget and producing a surplus for the year. Note that another $1.9 million will be transferred from reserves to fund second year early retirement costs.

The planned $26.5 million revenue increase for 2015 includes a proposed boost in the real estate tax millage of 0.5 mills that was recommended by the Act 47 recovery plan to compensate for what has been characterized as too deep a reduction in millage to comply with revenue neutral requirements following the 2013 reassessment. But the millage hike produces only $9 million in revenue growth from the 2014 estimate to 2015 budget. So where are the other sources of revenue growth?

The City's financial forecast expects a 2015 pickup in the parking tax ($2.6 million), payroll preparation tax and earned income tax ($1.7 million each) in 2015. License and permit fees are projected to rise $2 million and charges for services up $2.3 million. In addition, the City is budgeting a $4.7 million boost in the payment in lieu of taxes it receives from the Parking Authority and $2.5 million more in state pension aid in 2015. Total intergovernmental transfers are forecast to rise $7.9 million from the 2014 estimate. In total, the revenue increase from these sources comes to $18.2 million. On the negative side, combined revenue from deed transfers and from non-profit payments in lieu of taxes is budgeted to be down $3.7 million from 2014 estimates leaving the net pickup from these non-real estate sources at $14.5 million.

The parking tax growth can be traced to the August 1st boost in Parking Authority rates at garages and lots, which was another revenue directive of the Act 47 plan. If private garages and lots come with rate increases soon or in 2015, there will be even more money collected in parking taxes.

But there's much more revenue coming in the form of an abrupt and sharp increase in the money the City will receive under Act 77 tax relief, money from the Regional Asset District sales tax. In 2014, the City estimated it will receive $12.6 million, not much different from what it received in 2013 or years before. But after the sales tax was authorized in 1994 the City and the Urban Redevelopment Authority moved quickly set up the Pittsburgh Development Fund, sold bonds, and asked the state to intercept a portion of the City's RAD proceeds for the following two decades. Well, lo and behold, the two decades are up and now, without any documentation or comment in the budget, the revenue for Act 77 tax relief increases, *mirabile dictu*, from $12.6 million to $20.1 million in 2015.

To recap, the boosts in revenue from 2014 estimates to 2015 come from the real estate tax ($9 million), intergovernmental ($7.9 million), Act 77 ($7.5 million) with growth in wage, payroll, and parking taxes, ($6 million) and fees and charges up $4.3 million. Less the $3.7 million in lower revenue from deeds and non-profit in lieu of tax payments, the total projected boost in City revenue from regular sources will be $31 million. Sounds like more than enough. But then of course, we have to take away $5.2 million as that represents the difference in the amount transferred from reserve funds in 2015 compared to 2014 to meet early retirement payments.

On the expenditure side, the City budget of $505.9 million is $26 million higher than the $480.2 million estimated spending for 2014 (however, the budget approved in February of 2014 had expenditures totaled at $487 million, meaning expenditure growth compared to the previous budget would be closer to $18 million). Note that the City moved several "benefit type" line items (social security, unemployment compensation, personal leave buyback, tuition reimbursement, retirement severance, and the severance incentive program, according to OMB) into operating departments, making the 2014 estimate baseline for spending by departments about $12 million higher than the amount approved in the budget as amended in February.

Whatever the motivation, the City's proposed budget projects the operating departments' line item will be $7.6 million higher in 2015. Debt service is expected to increase slightly from $87.2 million to $89.3 million and the remainder is accounted for by pensions and other post-employment benefits (up close to $12 million), health benefits (up only $2.5 million, thanks to a forecast decline of $2.5 million drop in Medicare benefits for retirees), and workers' compensation (up $1.6 million). Thus, non-operating expenses represent 48 percent of total outlays. And, interestingly, total benefits amount to 40 percent of expenditures not including debt service.

Bear in mind there was a substantial change to pensions in the December 2013 decision of the Pension Trust Fund board to lower the assumed rate of return on pension investments from 8 percent to 7.5 percent. Under the former Mayor's 2014 budget submission from September of

2013, the baseline pension contribution was expected to be $31.4 million in 2014, rising slightly in the out years based on a calculation of the supplemental funding the City is putting into pensions from its gaming host fee ($5 million) and from parking taxes ($13.8 million). The current Mayor's 2014 budget still shows a baseline contribution of $31.4 million for 2014, but that amount rises to $42.8 million in 2015, about $9 million higher than our estimate of the amount forecast prior to the rate of return change.

Obviously, there are many questions about the proposed budget that ought to be raised by the oversight board and City Council in order to explore the numbers and see if there is a way to move forward in 2015 without the property tax hike. The argument that "everyone" should share in the pain of balancing the budget rings a little hollow. The bulk of all additional spending for 2015 is going to employee compensation as wage hikes or increased benefits support. Before raising tax rates to meet the jump in required pension contributions, offsets in other compensation or employment levels should be seriously explored. And certainly, it is long past the time to look at outsourcing of city services to save money. Then too, the workers' compensation component has hardly been touched after all the years of Act 47 and ICA oversight despite being far more costly than in comparable cities.

With modest expenditure cuts of a $3 million to $4 million, a likely larger than forecast increase in parking tax collections, and more property tax revenue arising out of all the new construction and improvements, Pittsburgh could easily settle on a budget that does not require a millage rate hike.

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